



County of Los Angeles  
**CHIEF EXECUTIVE OFFICE**

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WILLIAM T FUJIOKA  
Chief Executive Officer

March 18, 2011

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To: Mayor Michael D. Antonovich  
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From: William T Fujioka  
Chief Executive Officer

**SACRAMENTO UPDATE**

Over the past two days, both houses of the Legislature completed marathon sessions on the State Budget which resulted in the legislative passage of the FY 2011-12 State Budget and related budget trailer bill legislation to enact approximately \$10.0 billion in expenditure reductions to address a portion of the \$26.6 billion State Budget deficit. The Legislature has not taken action on the constitutional amendment to seek voter approval of a 5-year extension to generate approximately \$11.2 billion in tax revenues and to provide counties with protections for programs proposed for realignment.

On March 16, 2011, the Senate and Assembly passed eight budget trailer bills by a two-thirds vote to achieve \$7.4 billion in reductions primarily in health and human services programs. However, when the Assembly debated legislation to eliminate Redevelopment Agencies, the measure failed to receive the required two-thirds vote for passage. Some trailer bills were redrafted on March 17, 2011 as majority vote bills and the Legislature is expected to consider the elimination of redevelopment agencies, along with the constitutional amendment, and remaining budget measures when they reconvene the week of March 21, 2011.

**Estimated County Impact**

**Based on our preliminary review of the State Budget approved by the Legislature, the potential impact on the County would be an estimated \$421.5 million loss in FY 2011-12.** Attachment I provides the estimated impact by program. Attachment II is a detailed analysis of the Senate and Assembly budget actions of interest to the County.

*"To Enrich Lives Through Effective And Caring Service"*

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Major budget actions affecting the County as of March 18, 2011 include:

- Mental Health Services Act (Proposition 63) - \$241.1 million redirection of funding for Proposition 63 mental health services;
- CalWORKs Program Single Allocation - \$129.8 million reduction;
- CalWORKs Program Service Reductions - \$5.2 million County savings;
- Child Support Services Collections Suspension - \$10.8 million reduction;
- Medi-Cal Provider Payments - \$10.0 million reduction;
- Medi-Cal Share of Cost for Services - \$10.0 million reduction;
- Delay of Mandate Payments - \$16.5 million deferral;
- Suspension of most SB 90 Mandate Claims - \$5.8 million reduction; and
- Public Libraries - \$1.1 million reduction.

### **Pending State Budget Legislation**

The Legislature is expected to consider the following measures when they reconvene on March 21, 2011.

#### **ACAx1 2/SCAx1 1, the Schools and Local Public Safety Protection Act of 2011.**

These measures would enact a constitutional amendment to provide counties with constitutional protections for programs proposed for realignment and to seek voter approval of a 5-year extension in approximately \$11.2 billion in tax revenues. This revenue would be used to help fund the transfer of \$5.9 billion in program responsibilities from the State to counties for various public safety programs, including supervision of low-level offenders, adult parole, high-risk juvenile offenders, court security, CAL FIRE, child welfare, adult protective services, certain mental health programs and substance abuse treatment services.

**AB 101/SB 77, Community Redevelopment.** These measures would enact the Governor's Budget proposal to eliminate Redevelopment Agencies.

**AB 107/SB 83, Special Election.** These measures would enact the Governor's Budget proposal to schedule a statewide Special Election on June 7, 2011 to seek voter approval of a constitutional amendment for a 5-year extension of the temporary tax increases and the realignment of public safety programs from the State to the counties.

We will continue to keep you advised.

WTF:RA  
MR:VE:sb

Attachments

c: All Department Heads  
Legislative State

## ESTIMATED IMPACT TO LOS ANGELES COUNTY FROM THE FY 2011-12 STATE BUDGET PROPOSALS

	Governor's Budget Proposals	Conference Committee Budget	Senate & Assembly Approved Budget As of March 18, 2011
<u>Health</u>			
Medi-Cal Provider Payments Reduction	(10,000,000)	(10,000,000)	(10,000,000)
Medi-Cal Share of Cost for Services	(10,000,000)	(10,000,000)	(10,000,000)
Emergency Medical Services Funds (Maddy Funds) Reduction	0	(5,100,000)	0
<u>Mental Health</u>			
Redirection of Mental Health Services Act Funds <sup>(1)</sup>	(241,100,000)	(241,100,000)	(241,100,000)
<u>Social Services</u>			
CalWORKs Single Allocation Reductions <sup>(2)</sup>	(175,700,000)	(129,800,000) <sup>(3)</sup>	(129,800,000) <sup>(3)</sup>
Potential Cost Shift from CalWORKs Reductions to GR	(77,400,000) <sup>(4)</sup>	0 <sup>(5)</sup>	0 <sup>(5)</sup>
CalWORKs Program Reductions <sup>(2)</sup>	3,900,000	5,198,000 <sup>(6)</sup>	5,198,000 <sup>(6)</sup>
IHSS Program Reductions	96,900,000	TBD	TBD
Transitional Housing Program-Plus Reduction (THP-Plus)	(564,000)	TBD <sup>(7)</sup>	TBD <sup>(7)</sup>
Child Support Services Collections Suspension	(10,600,000)	(10,600,000)	(10,800,000) <sup>(8)</sup>
Senior Employment Program Reduction	(1,100,000)	(1,100,000)	(1,100,000) <sup>(9)</sup>
<u>General Government</u>			
Delay of Deferred Mandate Payments (Prior to FY 2004-05)	(16,500,000)	(16,500,000)	(16,500,000)
Suspension of Most SB 90 Mandate Claims	(6,900,000)	(5,800,000)	(5,800,000)
Public Library Funds	(1,400,000)	(1,070,000)	(1,070,000)
Elimination of State Funds for Military & Veterans Programs	(344,000)	0	0
Agricultural Commissioner/Weights and Measures	0	(1,060,000)	(500,000)
<b>TOTAL</b>	<b>(\$450,808,000)</b>	<b>(\$426,932,000)</b>	<b>(\$421,472,000)</b>

## Notes:

- (1) Estimate reflects the redirection of funds that would have been available to the County for Proposition 63 mental health services.
- (2) Estimate reflects 13-month period because the State Budget Proposals assume June 1, 2011 implementation of grant reductions.
- (3) Estimate reflects Single Allocation reduction carried over from 2010 State Budget Act (\$114.2 million) and new Single Allocation reduction (\$15.6 million). However, it is unclear at this time if any impact may be associated with the 8 percent grant reductions, 48-month time limit, and the reduction of Child Care services for 11 and 12 year-olds proposals.
- (4) Estimate assumes 50.0 percent of CalWORKs children/families, who would be terminated due to the 48-month time limit, apply for and are determined eligible for the County's General Relief Program.
- (5) The Conference Committee approved trailer bill language that would amend current statute which states any individual not eligible for CalWORKs due to 60-month limit shall not be eligible for General Relief until all children are age 18. The proposed change would apply that statute to those not eligible for CalWORKs due to 48-month time limit.
- (6) Estimate does not reflect the Governor's Revised Realignment Proposal to transfer \$1.077 billion statewide in 1991 Realignment revenue to fund the State's portion of increased county share of cost for CalWORKs grants, from 2.5 percent to 40.0 percent. DPSS estimates that based on 40.0 percent of the County's projected expenditures for 2011-12, the County share would be approximately \$472.5 million. If any of the proposed curtailments are enacted, based on the 1991 Realignment revenue allocation to community mental health programs and the projected CalWORKs caseload, we estimate this proposal would be underfunded by approximately \$64.3 million to \$132.9 million.
- (7) Defers THP-Plus funding to the Governor's Revised Realignment Proposal that would restore \$19.0 million to this program, proposed to be reduced in the FY 2011-12 Budget.
- (8) Estimate reflects \$3.62 million in State recoupment collections and Federal match of \$7.2 million.
- (9) Estimate reflects one-time only Federal funding, resulting in the elimination of about 115 slots for employment services for seniors.

*This table represents the estimated loss/gain of State funds based upon the State Budget Proposals. It does not reflect the actual impact on the County or a department which may assume a different level of State funding or be able to offset lost revenue.*

**Estimated County Impact of Budget Trailer Bills Enacted by the Legislature  
As of March 18, 2011**

**Health Budget Trailer Bill**

**AB 97** passed the Assembly by a vote of 56 to 14 and the Senate Floor by a vote of 36 to 2. This bill impacts the following areas:

**Medi-Cal Provider Payment Reduction.** Enact the Governor's Budget proposal to reduce payments to Medi-Cal providers by 10.0 percent effective June 1, 2011. **The Department of Health Services (DHS) indicates that this proposal will result in an estimated County loss of \$10.0 million.**

**Mandatory Medi-Cal Co-Payments.** Enact the Governor's Budget proposal to require co-payments for all Medi-Cal enrollees for physician and clinic visits, prescription drugs, hospital services, and dental services. **DHS indicates that this proposal will result in an estimated County loss of \$10.0 million, to the extent that the payments are uncollected.**

**Maddy Fund Reduction.** As a result of a drafting error, the \$55.0 million reduction to the Maddy Fund was removed from the Health Budget Trailer bill. The Maddy Fund is used to compensate physicians and hospitals that provide emergency medical services to uninsured persons who cannot pay for medical care. Legislation to enact the proposed reduction to the Maddy Fund is expected to be introduced the week of March 21, 2011.

**Mental Health Budget Trailer Bill**

**AB 100** passed the Assembly Floor by a vote of 55 to 14 and the Senate Floor by a vote of 37 to 2. This bill would enact the Governor's Budget proposal of a one-time shift of \$861.0 million from the Mental Health Services Act (Proposition 63), which would have gone to counties, to the State General Fund to pay the State's obligation for the Mental Health Managed Care, Early and Periodic Screening, Diagnosis, and Treatment and the AB 3632 Special Education Programs. Beginning in FY 2012-13, funding and administration of these programs would be shifted from the State to counties under the Governor's Realignment Proposal. Although the Governor's Budget indicates that the shift of Proposition 63 funds could be enacted by the Legislature, the Department of Mental Health (DMH) believes that this proposal would violate the non-supplantation provision of Proposition 63 and requires passage of a voter-approved initiative. A similar ballot initiative failed in the May 2009 Special Election. **DMH indicates that this proposal would redirect approximately \$241.1 million in funds that would have been available for the County for Proposition 63 services.**

## **Human Services Budget Trailer Bill**

**SB 72** passed the Assembly Floor by a vote of 57 to 7 and the Senate Floor by a vote of 39 to 0. This bill impacts the following programs:

**CalWORKs.** Achieve \$1.1 billion in statewide reductions to the CalWORKs Program as follows:

- **Single Allocation Reduction.** Enact a reduction of \$427.0 million to the CalWORKs Single Allocation which funds eligibility administration, employment services, CalWORKs Stage One Childcare, and Cal-LEARN. **According to the Department of Public Social Services (DPSS), this action would result in an estimated County loss of \$129.8 million.**
- **48-Month Time Limit.** Enact a 48-month time limit for adults only, effective June 1, 2011, without altering policies regarding exemptions which would stop the 48-month time limit. This action would result in State General Fund savings of approximately \$13.0 million in FY 2010-11 and \$158.0 million in FY 2011-12. DPSS indicates that CalWORKs families would lose \$3.9 million in FY 2010-11 and \$47.5 million in FY 2011-12 in grant assistance. It is unclear at this time specifically how many CalWORKs families would be impacted in the County. **According to DPSS, this action would result in an estimated net County savings of \$100,000 in FY 2010-11 and \$1.2 million in FY 2011-12.**
- **Grant Reductions.** Enact an 8.0 percent grant reduction, effective June 1, 2011, for a State General Fund savings of \$300.0 million. This action would reduce the CalWORKs grant for a family of three from \$694 to \$638 per month. Approximately 176,500 families, including 336,500 children that currently receive CalWORKs benefits in the County, would lose \$90.2 million in cash assistance. **DPSS estimates that County would save approximately \$2.3 million.**

In addition, the Budget Trailer bills enact additional grant reductions to cases without aided adults after more than 5 years on aid, for a State General Fund savings of approximately \$100.0 million. DPSS indicates that CalWORKs families would lose \$30.1 million in grant assistance. **According to DPSS, this action would result in an estimated net County savings of \$753,000.**

- **Earned Income Disregard.** Reduce the Earned Income Disregard for working CalWORKs families and expand the CalWORKs Subsidized Employment Program for a State General Fund savings of \$112.5 million. DPSS estimates a loss of \$33.8 million in grants to CalWORKs families in the County. **According to DPSS, this action would result in an estimated net County savings of \$845,000 in FY 2011-12.**

**In-Home Supportive Services (IHSS) Program.** Enact \$486.1 million in State General Fund reductions to the IHSS Program as follows:

- **IHSS Services for Recipients without Certification by a Licensed Health Care Provider.** Eliminate IHSS services for recipients without a certification by a licensed health care provider for a State General Fund savings of \$152.0 million in FY 2011-12. **DPSS estimates that IHSS recipients would lose approximately \$172.9 million in IHSS related services. We are working to determine County impact.**
- **Community First Choice Options.** Approve \$121.0 million in State General Fund savings achieved through the expected Federal approval of the new Community First Choice Options. This would allow the State to exercise its option to provide home and community-based services under IHSS in lieu of institutional placement at a 6.0 percent increase in Federal Medical Assistance Percentage (FMAP). **We are working to determine County impact.**

**Transitional Housing Program-Plus (THP-Plus).** As previously reported, funding for THP-Plus would be deferred until passage of the Governor's Realignment Proposal for Foster Care and Child Welfare Services which would restore \$19.0 million in FY 2011-12 to the THP-Plus for 18- and 19-year old foster youth. The Governor's FY 2011-12 Budget proposed to reduce funding for THP-Plus. **If the \$19.0 million funding for THP-Plus is restored under Realignment, an estimated \$564,000 and 21 beds will be restored to the Department of Children and Family Services.**

**Child Support Collections Suspension.** Enact the Governor's Budget proposal to suspend the County share of child support recoupment collections in FY 2011-12 estimated to be \$24.4 million statewide. Currently, counties are entitled to retain 2.5 percent of welfare child support collections. This would be retained at the State level and benefit the State General Fund. **The Department of Child Support Services indicates that the County collects and retains approximately \$3.62 million in recoupment collections per year which would be suspended for one year under the Budget Trailer bill passed by the Legislature. The \$3.62 million in recoupment collections are used to maintain current service levels for the County's child support program and also helps the County draw down a Federal match of \$7.2 million, resulting in a total potential estimated County loss of \$10.8 million.**

**Senior Employment Program Reduction.** Enact the Governor's Budget proposal to reduce Federal funding by \$4.1 million, for the Title V - Senior Employment Program which provides part-time, work-based training opportunities for seniors aged 55 and over who have challenging employment prospects and assists with the transition of individuals to unsubsidized employment. **The Department of Community and Senior Services estimates that the County will lose approximately \$1.1 million in one-time only Federal funding, resulting in the elimination of about 115 slots for employment services for seniors.**

## **Public Safety Realignment Budget Trailer Bill**

**AB 109** passed the Assembly Floor by a vote of 51 to 26 and the Senate Floor by a vote of 24 to 16. This bill would enact the framework for post-release supervision of low-level offenders by counties and defines the population of low-level offenders. This measure does not contain all of the elements for Public Safety Realignment. This measure includes the following major provisions:

- Specifies the low-level felony convictions that would be held in local custody;
- Specifies that low-level offenders on probation/parole would have their revocation hearings with local courts;
- Specifies that parole supervision for serious felonies, violent felonies, those with two or more felony convictions, and high-risk sex offenders would continue to be performed by the State;
- Increases credits for time served for specified prisoners;
- Specified that days served under home detention shall qualify as mandatory time in jail;
- Requires counties to sign an MOU with the State to contract out specified high-risk juvenile offenders;
- Authorizes local corrections administrators to offer voluntary home detention to all inmates; and
- Allows a county board of supervisors to authorize electronic monitoring for those being held in custody in lieu of bail.

According to the Probation Department, the measure would require each county's community corrections partnership to develop a local plan to implement public safety realignment. The bill would also establish an executive committee within each county's community corrections partnership, consisting of the chief probation officer, the sheriff, a county supervisor or the chief administrative officer for the county, and the director of the county department of social services for purposes related to the development and presentation of the local plan to a county board of supervisors.

The Sheriff's Department indicates that the shift of low-level offenders to counties would also include persons that have been convicted of certain sex crimes. The State's definition of non-sex offenders only applies to those offenders that may have committed high-risk sex-crimes which usually result in a mandatory registered sex-offender classification. However, under the non-sex offender category, the County will have jurisdiction for some sex offenders who are not required to register as sex offenders.

An issue of concern raised by the California State Association of Counties (CSAC), is the lack of clarity funding for low-level offenders with 3-year sentences. According to CSAC, the Administration has indicated their willingness to work with counties to mitigate any issues or concerns. We will continue to work with affected departments, the Sacramento advocates, CSAC and other statewide organizations on a complete analysis of this measure.

### **Jail Construction Budget Trailer Bill**

**AB 111** passed the Assembly Floor by a vote of 52 to 23 and the Senate Floor by a vote of 25 to 14. This bill would accelerate the availability of AB 900 jail construction bonds to give preference to counties that committed the largest percentage of inmates to State prisons in 2010. This measure also would delete provisions prohibiting California Department of Corrections and Rehabilitation from awarding funds until certain construction requirements are met. This measure retains the 25.0 percent county match requirement.

### **Proposition 10 Budget Trailer Bill**

**AB 99** passed the Assembly Floor by a vote of 55 to 16 and the Senate Floor by a vote of 36 to 3. This bill would enact the Budget Conference Committee compromise to the Governor's Budget proposal to provide a one-time shift of \$1.0 billion in State and local California Children and Families First Act (Proposition 10) Commissions reserve funds to support Medi-Cal services for children from birth to 5 years of age.

### **Cash Management Budget Trailer Bill**

**SB 82** passed the Assembly Floor by a vote of 54 to 20 and the Senate Floor by a vote of 39 to 0. This bill would extend the authority provided under existing law which allows the State Controller, the Director of Finance and the State Treasurer to defer various payments, including payments to counties for various health, mental health and social services programs, in the months of July, October and March, in full or in part for no more than 60, 90 and 60 days respectively to manage State cash reserves. This bill also would authorize cash flow borrowing from four additional special funds including the Local Revenue Fund of 2011 and the Hospital Quality Assurance Revenue Fund.

### **Budget Issues Approved In Various Trailer Bills**

**State Mandates.** Enacts the Governor's Budget proposal to maintain the suspension of \$227.8 million in mandates not related to law enforcement and the proposed deferral of \$94.0 million as a result of deferring payment for costs incurred prior to FY 2004-05 for a State General Fund savings of \$63.0 million. Rejects the Governor's proposal to suspend the Brown Act open meeting mandates in FY 2011-12. **The deferral of mandate payments would result in an estimated County loss of \$16.5 million, and**

**the suspension of State Mandates would result in an estimated County loss of approximately \$5.8 million.**

**Public Library Funds.** Enacts the Conference Committee Final Budget Package reduction of \$15.0 million to Local Assistance Programs, including the Public Library Foundation, California Library Literacy and English Acquisition Services, and the California Library Services Act. **According to the Public Library, this reduction would result in an estimated County loss of \$1.07 million in funding for books and materials.**

**Department of Food and Agriculture Baseline Reduction.** Enacts the Governor's Budget proposal to reduce the State General Fund by \$15.0 million for the California Department of Food and Agriculture (CDFA). **According to the Agricultural Commissioner/Weights and Measures (ACWM), this reduction would result in an estimated County loss of \$500,000 due to the repeal of AB 1896 of 2004, which requires the ACWM to staff year-round programs that are under an agreement with CDFA with permanent employees, and a reduction to the High Risk Pest Exclusion funding. The ACWM is continuing to work with the CDFA to minimize the impact to the County.**

### **Transportation Budget Trailer Bill**

**AB 105** passed the Assembly Floor by a vote of 66 to 3 and the Senate Floor by a vote of 39 to 0. This bill would re-enact the 2010 fuel tax swap and implement technical changes regarding Proposition 1B funding and Proposition 42 provisions sponsored by the California State Association of Counties (CSAC). The remaining provisions in the bills do not have a significant impact on the County.

The fuel tax swap, enacted by ABX8 6 (Chapter 11 of 2010) and ABX8 9 (Chapter 11 of 2010), and later modified by SB 70 (Chapter 9 of 2010), eliminated the sales tax on gasoline and replaced it with a 17.3 cent excise tax increase indexed to keep pace with what the sales tax on gasoline would have generated in a given fiscal year to ensure revenue neutrality.

The fuel tax swap, which was enacted by a majority vote of the Legislature, also increased the sales tax rate on diesel by 1.75 percent, reduced the excise tax on diesel to 13.6 cents, and provided an exemption to hold harmless entities that would be impacted from the change. The 17.3 cent excise tax increase is expected to generate approximately \$2.5 billion in transportation funding and provide about \$1.1 billion in State General Fund savings for Fiscal Years 2010-11 and 2011-12.

A primary reason for enacting the swap was to remove transportation funding from the annual budget debate and provide State General Fund savings by paying transportation bond debt from the excise tax. However, Proposition 22 on the November 2010 ballot restricts the Legislature's ability to utilize Highway Users Tax Account (HUTA) revenues for bond debt service and Proposition 26 of 2010 calls into question the legality of the

gas tax swap by requiring that taxes and fee increases be passed by a two-thirds vote. Since the fuel tax swap was enacted by a majority vote, Proposition 26 could invalidate the tax provisions contained in the fuel tax swap legislation in November 2011.

In response to the impact of Propositions 22 and 26 on the fuel tax swap, the Governor's Proposed Budget recommended trailer bill legislation to reenact the fuel tax swap in addition to dedicating weight fees (\$800.0 million to \$900.0 million annually) for bond debt service and loans to the State General Fund. **The Department of Public Works (DPW) indicates that the failure to reenact the fuel tax swap with a two-thirds vote could mean a loss of \$60.0 million annually to the department for local streets and roads. In addition, since Proposition 22 limits the use of HUTA for bond debt service, DPW states that another source of revenue must be included to backfill the loss of excise tax revenue for bond debt service. DPW indicates that the Governor's proposal to dedicate weight fees for bond debt service would not impact the department.**

AB 105 and SB 81 include the Trailer Bill Language proposed by Department of Finance in addition to the two technical fixes requested by CSAC. Specifically, AB 105 and SB 81 would: 1) validate the tax provisions contained in ABX8 6 with a two-thirds vote of the Legislature; 2) approve the transfer of transportation weight fees from the State Highway Account to the General Fund to pay for transportation bond debt service; 3) reenact the allocation formula in ABX8 9 that allows the replacement tax of the 17.3 cents excise tax on gasoline to be allocated to the State Transportation Improvement Program, the State Highway Operations Preservation Program, and to cities and counties for street and road repair; and 4) continue public transit operations funding provided by the sales tax on diesel fuel.

In addition, AB 105 and SB 81 contain language sponsored by CSAC that would: 1) extend the use-it-or-lose-it period for expenditure of Proposition 1B local streets and roads funds by 1 year due to previous HUTA deferrals; and 2) clarify that Proposition 42 provisions, such as maintenance of effort and limitations on project eligibility types, do not apply to the new HUTA funds under the swap, thereby treating all HUTA or gas tax monies equally.

The Department of Public Works indicates that the State has continually loaned or borrowed gas tax revenues received by the department in recent years and has allowed cities and counties to use Proposition 1B local streets and roads monies to backfill the deferred gas tax revenues. DPW indicates that the CSAC-sponsored provisions extending the use-it-or-lose-it period by an additional year would provide the necessary time to fully expend the Proposition 1B funds received by the department.

In addition, DPW indicates that the CSAC-sponsored provisions which clarify the use of gas tax revenues are necessary due to the State Controller's opinion on the use of fuel tax revenues. Following the approval of the fuel tax swap, the State Controller opined that all Proposition 42 criteria would apply to the new HUTA revenues received by the local jurisdictions. The Proposition 42 revenues received by DPW were subject to

various restrictions and were limited to streets and roads maintenance, rehabilitation and storm damage, and subject to use-or-lose-it and maintenance-of-effort requirements. On the other hand, DPW states that gas tax revenues are more flexible and could also be used for operations, and equipment costs. DPW states that the CSAC-sponsored provisions would allow the expenditure of the revenues received by the department from the new 17.3 cent excise tax in the same manner as the other revenues received from the gas tax, and thus will require less work to track and report the revenues.